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IN THE

Supreme Court of the United States

OCTOBER TERM, 1946

No. 11.

ALMA MOTOR COMPANY, *Petitioner*,

v.

THE TIMKEN-DETROIT AXLE COMPANY, *Respondent*.

RESPONDENT'S BRIEF ON REARGUMENT.

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OPINIONS BELOW.

The opinion of the District Court of the United States for the District of Delaware (R. 33-43) is reported in 47 F. Supp. 582. The opinion of the United States Circuit Court of Appeals for the Third Circuit (R. 112-120) is reported in 144 F. 2d 714.

JURISDICTION AND PROCEEDINGS IN THIS COURT.

On January 2, 1945 petitioner filed its petition for certiorari in this court basing the jurisdiction of this court upon Section 240(a) of the Judicial Code, as amended by the Act of February 13, 1925.

In due course petitioner's brief, respondent's brief, the brief for the United States as intervenor, the brief of Roscoe A. Coffman Amicae Curiae and petitioner's reply brief were filed and on April 24 and 25, 1945 oral argument was had in this court, counsel for petitioner, counsel for the United States and counsel for respondent being heard in the order listed. On May 21, 1945, this Honorable Court entered its order restoring the case to the docket for re-argument on the questions stated below.

THE QUESTIONS PRESENTED.

1. Whether the Royalty Adjustment Act, 56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96, is constitutional under the Fifth Amendment to the Constitution as applied to royalties due from respondent, The Timken-Detroit Axle Company, to petitioner for the patented devices manufactured, sold and delivered to the Government of the United States (a) before the enactment of the Act and (b) before the promulgation of the departmental Royalty Adjustment Order W-3.

2. Whether Section 2 of the Royalty Adjustment Act, 56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96, authorizing a suit to be brought in the Court of Claims or in a District Court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, The Timken-Detroit Axle Company.

STATUTES INVOLVED.

The Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96), known as the Royalty Adjustment Act, is set forth in Appendix A, pp. 29-32. The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. § 68), is set forth in Appendix B, pp. 33. The applicable patent statutes, Revised Statute 4893, Act of July 8, 1870, C. 230, § 31, 16 Stat. 202,

35 U. S. C. Sec. 36; Revised Statute 4884, Act of July 8, 1870, C. 230, § 22, 16 Stat. 201, 35 U. S. C. Sec. 40; and the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68 are set forth in Appendix C, pp. 34-35.

STATEMENT.

Petitioner, Alma Motor Company, is the owner of United States Patent 2,173,044 issued to it on September 12, 1939 as the assignee of Ruggles and Smith and respondent, The Timken-Detroit Axle Company, is a licensee of petitioner under an agreement dated September 12, 1939 and providing for a royalty ranging from fifty cents to $1.50 per transfer case (R. 11, 88-90). A transfer case is an auxiliary transmission for automotive vehicles (R. 88) and respondent's production and sale of transfer cases covered by the patent in suit has been only to or for the use of the War Department (R. 60).

Proceedings in District Court.

On January 23, 1941, respondent brought this action against petitioner under the Federal Declaratory Judgment Act[1] in the District Court of the United States for the District of Delaware to declare the patent invalid and the license agreement inapplicable to certain transfer cases manufactured by respondent (R. 2-9, 16-17). Petitioner filed an answer and a counterclaim for royalties alleged to be due from respondent under the license agreement (R. 9-13, 17-18). On September 23, 1942, the district court rendered its opinion (R. 33-43), and on December 2, 1942, entered a judgment (R. 49-51), holding that respondent as a licensee was estopped to question the patent's validity (Par. 3, R. 49); that certain of the transfer cases in question were dominated by the patent and thus subject to royalties under the license (Par. 4, R. 49-50); and that the

[1] Judicial Code, § 274d (28 U. S. C. § 400).

remainder were outside the patent and hence not subject to royalties (Par. 5, R. 50).

On February 27, 1943, petitioner appealed to the court below from Paragraph 5 of the judgment (R. 51), which had held certain transfer cases to be outside the patent. Respondent did not appeal.

Royalty Adjustment Proceedings.

The Royalty Adjustment Act became law on October 31, 1942, about three years after issuance of the patent and about one year and nine months after institution of this litigation. It provides that whenever a patented or unpatented invention is "manufactured, used (or) sold * * * for the United States," under a license stipulating for the payment of royalties "believed to be unreasonable or excessive" by the head of the Government agency concerned, he "shall give written notice of such fact to the licensor and to the licensee." It provides that within a reasonable time thereafter the head of the agency "shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production * * * ." (Sec. 1.) The Act directs the licensee, after the effective date of the notice, not to "pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use (or) sale" (Sec. 1). Section 7 makes the Act applicable "to all royalties directly or indirectly charged or chargeable to the United States" which "*have not been paid to the licensor prior to the effective date of the notice**," as well as to royalties accruing upon all articles delivered after such effective date. By Section 4 any reduction in royalties authorized by the Act is to "inure to the benefit of the Government by way of a corresponding reduction in

* Emphasis ours.

the contract price to be paid * * * or by way of refund if already paid to the licensee."[2]

On December 30, 1942, pursuant to Section 1 of the Royalty Adjustment Act, the War Department served written notice upon petitioner and respondent that the royalties called for by the license agreement between them and "now being paid by the United States" are "believed to be unreasonable or excessive;" that an order fixing the rate or amount of royalty deemed fair and just would be issued within a reasonable time; that the licensor and the licensee could, upon request, "present in writing or in person any facts or circumstances which may * * * have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act;"[3] and that until an order is issued "no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States" (R. 106-107). On February 8, 1943, upon petitioner's request (R. 107-108), petitioner and respondent were afforded an opportunity to present before a War Department Examining Board "facts and circumstances" bearing upon the royalty to be fixed under the Act (R. 61-86).

On July 28, 1943, the War Department issued Royalty Adjustment Order No. W-3 (R. 93-96). That Order recited that royalties payable by respondent to petitioner under the license agreement are "directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the

[2] The Royalty Adjustment Act was summarized by this Court in *Coffman* v. *Breeze Corporations, Inc.*, 323 U. S. 316, 319-320.

[3] Section 1 of the Act provides that "the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation."

United States" of the alleged invention covered by the patent; that such royalties were "believed to be unreasonable or excessive taking into account the conditions of wartime production" (R. 93-94); and that the "fair and just" royalty under the circumstances was zero (R. 94, 96).[4] The order then directed respondent to pay no royalties whatever to petitioner under any license agreement "in respect of any supplies, equipment or materials delivered to or for the War Department" (R. 94-95); to pay to the United States any such royalties which had accrued or were to accrue on deliveries to or for the War Department and which had *not been paid to petitioner prior to the notice*[5] (R. 95); and to reduce the contract price of articles to the War Department or its contractors or subcontractors "to the extent necessary to give the War Department the full benefit of the (ordered) reduction in royalty rates" (R. 95).

Proceedings in the Court Below.

After Royalty Adjustment Order No. W-3 was issued, respondent on August 25, 1943, filed a motion to dismiss the appeal and remand the cause to the district court (R. 53-55). Asserting that respondent "has manufactured and sold transfer cases coming within the (license) agreement * * * only to or for the use of the War Department," the motion alleged that the court's jurisdiction had been withdrawn by the provision in the Royalty Adjustment Act depriving the licensor of any remedy against the licensee for any royalties in excess of those permitted by the Order and making the licensor's exclusive remedy" for such royalties a suit against the United States for "fair and just compensation" (Secs. 1, 2). By leave of court (R. 96-98), the United States filed a memorandum brief as *amicus*

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[4] This was based upon the belief of the War Department officials that the patent was invalid (R. 73).

[5] Emphasis ours.

curiae on November 15, 1943, contending that if all the transfer cases in suit had "been manufactured and sold directly or indirectly to the United States," as the affidavit supporting respondent's motion averred (R. 60), so that the royalties due thereon were "directly or indirectly charged or chargeable to the United States" (Royalty Adjustment Act, Sec. 7), then an "actual controversy" between the litigants no longer existed under the Declaratory Judgment Act, in view of the Royalty Adjustment Act and Order issued thereunder. The brief suggested that the court below should either dismiss the appeal or suspend action thereon until an actual controversy again arises.[5]

On December 6, 1943, petitioner filed a "Petition To Review and Vacate Royalty Adjustment Order No. W-3" on the ground that the Order and the underlying Act were unconstitutional (R. 98-103). Upon certification by the court below that the constitutionality of the Act has been questioned, the United States intervened under the Act of August 24, 1937 (28 U. S. C. § 401) for the purpose of supporting the constitutionality of the Act and Order (R. 110-111, 113).

After this issue was briefed and argued, the court below rendered its opinion on August 7, 1944 (R. 112-120), holding the Act and Order valid as a "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120); and concluding that the Order's direction to pay no royalties whatever to petitioner rendered the instant suit moot (R. 113). The court accordingly directed the following disposition of the case (R. 120):

> Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear

[5] The brief *amicus* is not in the record but can be made available to this Court upon request. The Government's position as *amicus* is also set forth in its motion for leave to file a brief (R. 96-97).

> to the Court that a justiciable controversy again[6] exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

The court also dismissed the "Petition To Review and Vacate Royalty Adjustment Order No. W-3" (R. 111-112) for want of jurisdiction (R. 119). On October 2, 1944, a petition for rehearing was denied (R. 130).

SUMMARY OF ARGUMENT.

I.

The patent in suit, numbered 2,173,044, was granted pursuant to Revised Statute 4893, Act of July 8, 1870, C. 230, § 31, 16 Stat. 202, 35 U. S. C. Sec. 36 and Revised Statute 4884, Act of July 8, 1870, C. 230, § 22, 16 Stat. 201, 35 U. S. C. Sec. 40. As a result thereof petitioner acquired the exclusive right to make, use, and vend the alleged invention or discovery of patent 2,173,044 subject to the Government's right to have any invention or discovery disclosed, manufactured or used by or for the United States as provided by the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68 and subject, like all other property, to the Constitutional power of the Government under Article I, Sec. 8 to wage war, *Block* v. *Hirsch*, 256 U. S. 135; *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253. Cf. *The Charles River Bridge* v. *The Warren Bridge et al.*, 11 Peters 420, *Home Building and Loan Association* v. *Blaisdell et al.*, 290 U. S. 398, and *Wood* v. *Lovett*, 313 U. S. 362.

Being subject to the Constitutional powers of the Government, the exercise of the Constitutional war powers in derogation of a private contract relating to property, in this case patent property, does not constitute a retroactive

[6] The word "again" was deleted by an order of October 2, 1944, amending the court's opinion (R. 129-130).

impairment of a contract obligation but is a legal and proper exercise of the Government's reserved Constitutional power to protect its citizens by effective use of such power, *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253; *Block* v. *Hirsch*, 256 U. S. 135; *Norman* v. *Baltimore & O. R. Co.*, 294 U. S. 240, *The Union Bridge Co.* v. *United States*, 204 U. S. 364; *The Charles River Bridge* v. *The Warren Bridge et al.*, 11 Peters 420; *Manigault* v. *Springs*, 199 U. S. 473; *Louisville and N. R. Co.* v. *Mottley*, 219 U. S. 467; *Stephenson* v. *Binford*, 287 U. S. 251; *Home Building and Loan Association* v. *Blaisdell*, 290 U. S. 398; and *Bowles* v. *Willingham*, 321 U. S. 503. Having such sovereign powers, it is submitted, that private contracts cannot destroy these powers, *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253; *Norman* v. *Baltimore & O. R. Co.*, 294 U. S. 240; *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88.

Since Congress under its war power can modify or abrogate the patent grant itself, and as a matter of fact did modify it in 1910 and 1918 as shown by the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68, it has the power to regulate contracts based on such patent rights as provided by the Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III §§ 89-96) where such contracts have the effect of impeding the war effort, for example by increasing costs, to the same extent as it has the power to regulate contract prices relating to other property in such circumstances *Block* v. *Hirsch*, 232 U. S. 261; *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253.

The fact that the Royalty Adjustment Act has a retroactive effect does not cause the Act to be unconstitutional and beyond the power of Congress, *Billings* v. *United States*, 232 U. S. 261.

II.

Assuming arguendo that exercise of the Government's reserved Constitutional war powers in the manner provided by the Royalty Adjustment Act is unconstitutional insofar as it affects a contractor's right to money accrued and payable prior to the effective date of the Act, it is submitted that the Act becomes a part of the contract on the effective date of the Act and is constitutional insofar as it affects royalties accruing after the effective date of the Act. It is immaterial that the official application of the Act and the extent to which a contracting party's rights are affected is provisionally determined by subsequent issuance of an administrative notice, such as the notice of December 30, 1942 (R. 106-107), or an administrative order, such as Royalty Adjustment Order W-3 (R. 93-96) since such notice or order is no different in principle from a provision of an Act which effects a retroactive result and was upheld in *Billings* v. *United States*, 232 U. S. 261.

III.

(a) Irrespective of its retroacitve aspects, the Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, § 90) affords a licensor fair and just compensation for the Government's use of his licensed invention. It, therefore, is submitted that it is immaterial whether the Royalty Adjustment Act be considered a taking of the invention or impairment or taking of the license contract, for the Act itself gives a licensor of a patent the right to sue in the Court of Claims for "fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the *licensed invention** for the United States taking into account the conditions of wartime production." Act of October 31, 1942, Sec. 2, 36 Stat. 1013, 35 U. S. C., Supp III, § 90. This specification of "licensed invention", we submit, shows that Congress intended to place the Gov-

* Emphasis ours.

ernment in the same position to purchase patented devices from licensees under patents as it was to purchase from others under the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C., Sec. 68.

The fact that the Royalty Adjustment Act specifically gives the Government the right to attack validity is of no consequence since the public interest here involved was sufficient to entitle the licensee to such defense, *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88. The further fact that full compensation cannot be secured except by Court action subsequent to the exercise of the Government's sovereign rights is likewise immaterial since the Constitution merely requires a judicial review even where the necessity of compensation exists, *Crozier* v. *Krupp*, 224 U. S. 290; *Yakus* v. *United States*, 321 U. S. 414.

(b) Even though the Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96) effects a taking of the contract or an invention under the sovereign power, the Act is constitutional since it provides the licensor fair and just compensation in view of the lack of an effective estoppel as to validity, *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88, and gives the licensor the exact equivalent of what is taken, namely a right of action for manufacture and use of the licensed invention, *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

ARGUMENT.

Point 1. The Royalty Adjustment Act is Constitutional as applied to royalties due from Respondent The Timken-Detroit Axle Company to Petitioner for patented devices manufactured, sold and delivered to the Government before the date of approval of the Act.

The title of the Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, § 90) is "An Act to provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes." At the outset of the enacting portion of the Act, the purpose is stated to be to aid in the successful prosecution of the war. Section 2 provides that conditions of wartime production shall be taken into account by the Court of Claims in determining what royalties shall constitute fair and just compensation. Section 7 provides, in effect, that the Act shall remain in force only during continuance of the present war and for six months after its termination. It thus seems very clear that the Royalty Adjustment Act is a temporary war measure.

The transfer cases on which royalties are sought by petitioner are all military equipment, which prior to the passage of the Act involved had been purchased for military use by the Government in contemplation of, preparation for, and military use during the War.

The patent in suit was granted pursuant to Revised Stat. 4893, Act of July 8, 1870, C. 230, § 31, 16 Stat. 202, 35 U. S. C. Sec. 36 and Revised Stat. 4884, Act of July 8, 1870, C. 230, § 22, 16 Stat. 201, 35 U. S. C. Sec. 40. Under these statutes the patentee acquires the exclusive right to make, use and sell the alleged invention or discovery of his patent subject, we submit, to the Government's right to have his invention or discovery manufactured or used by or for the United States as provided by the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68 and subject to the constitutional

power of the Government under Article 1, Sec. 8 of the Constitution providing for waging war. That private property and private rights are subject to the war powers of Congress, was definitely decided by this Court in the case of *Block* v. *Hirsch*, 256 U. S. 135, wherein Mr. Justice Holmes in upholding the rent control Act of October 22, 1919, Chap. 80, Title 2, § 109 against the contention that rental contracts relating to land were not clothed with a public interest and therefore not subject to control under a valid exercise of the war powers said (page 155):

> "The general proposition to be maintained is that circumstances have clothed the letting of buildings in the District of Columbia with a public interest so great as to justify regulation by law. Plainly, circumstances may so change in time or so differ in space as to clothe with such an interest what at other times or in other places would be a matter of purely private concern. It is enough to refer to the decisions as to insurance, in German Alliance Ins. Co. v. Lewis, 293 U. S. 389, 58 L. Ed. 1011, L. R. A. 1915 C, 1189, 34 Sup. Ct. Rep. 612; irrigation, in Clark v. Nash, 198 U. S. 361, 49 L. Ed. 1083, 25 Sup. Ct. Rep. 676, 4 Ann. Cas. 1171; and mining, in Strickley v. Highland Boy Gold Min. Co., 200 U. S. 527, 50 L. Ed. 581, 26 Sup. Ct. Rep. 301, 4 Ann. Cas. 1174. They sufficiently illustrate what hardly would be denied. They illustrate also that the use by the public generally of each specific thing affected cannot be made the test of public interest (Mt. Vernon-Woodberry Cotton Duck Co. v. Alabama Interstate Power Co., 240 U. S. 30, 32, 60 L. Ed. 507, 511, 36 Sup. Ct. Rep. 234), and that the public interest may extend to the use of land. They dispel the notion that what in its immediate aspect may be only a private transaction may not be raised by its class or character to a public affair. See also Noble State Bank v. Haskell, 219 U. S. 104, 110, 111, 55 L. Ed. 112, 116, 117, 32 L. R. A. (N. S.) 1062, 31 Sup. Ct. Rep. 186, Ann. Cas. 1912 A, 487.
>
> " • • • Under the police power the right to erect buildings in a certain quarter of a city may be limited to from 80 to 100 feet. Welch v." (156) "Swasey, 214 U. S. 91, 53 L. Ed. 923, 29 Sup. Ct. Rep. 567. Safe

pillars may be required in coal mines. Plymouth Coal Co. v. Pennsylvania, 232 U. S. 531, 58 L. Ed. 713, 34 Sup. Ct. Rep. 359. Billboards in cities may be registered. St. Louis Poster Advertising Co. v. St. Louis, 249 U. S. 269, 63 L. Ed. 599, 39 Sup. Ct. Rep. 274. Watersheds in the country may be kept clear. Perley v. North Carolina, 249 U. S. 511, 63 L. Ed. 735, 39 Sup. Ct. Rep. 357. These cases are enough to establish that a public exigency will justify the legislature in restricting property rights in land to a certain extent without compensation. But if, to answer one need, the legislature may limit height, to answer another it may limit rent. We do not perceive any reason for denying the justification held good in the foregoing cases to a law limiting the property rights now in question if the public exigency requires that. The reasons are of a different nature, but they certainly are not less pressing. Congress has stated the unquestionable embarrassment of government and danger to the public health in the existing conditions of things. The space in Washington is necessarily monopolized in comparatively few hands, and letting portions of it is as much a business as any other. Housing is a necessary of life. All the elements of a public interest justifying some degree of public control are present. The only matter that seems to us open to debate is whether the statute goes too far.

* * *

(157) "Machinery is provided to secure to the landlord a reasonable rent. § 106. It may be assumed that the interpretation of 'reasonable' will deprive him, in part, at least, of the power of profiting by the sudden influx of people to Washington, caused by the needs of government and the war, and thus of a right usually incident to fortunately situated property,—of a part of the value of his property as defined in International Harvester Co. v. Kentucky, 234 U. S. 222, 58 L. Ed. 1287, 35 Sup. Ct. Rep. 853; Southern R. Co. v. Green, 216 U. S. 400, 414, 54 L. Ed. 536, 540, 30 Sup. Ct. Rep. 287, 17 Ann. Cas. 1247. But while it is unjust to pursue such profits from a national misfortune with sweeping denunciations, the policy of restricting them has been embodied in taxation and is accepted. It goes little if at all farther than the restriction put upon

the rights of the owner of money by the more debatable usury laws. * * *

(158) "Assuming that the end in view otherwise justified the means adopted by Congress, we have no concern, of course, with the question whether those means were the wisest, whether they may not cost more than they come to, or will effect the result desired. It is enough that we are not warranted in saying that legislation that has been resorted to for the same purpose all over the world is futile, or has no reasonable relation to the relief sought. Chicago B. & Q. R. Co. v. McGuire, 219 U. S. 549, 569, 55 L. Ed. 328, 339, 31 Sup. Ct. Rep. 259."

Similar legislation under war powers was also upheld in the case of *Highland* v. *Russell Car and Snow Plow Company*, 279, U. S. 253 where the right of Congress to regulate the price of coal under the Lever Act approved August 10, 1917, Chap. 53, 40 Stat. at L. 276, 284 was upheld against an attack that it was unconstitutional as an impairment of a contract and repugnant to the due process clause of the Federal Constitution. In this case Mr. Justice Butler speaking for the Court said, page 261:

"It is everywhere recognized that the freedom of the people to enter into and carry out contracts in respect of their property and private affairs is a matter of great public concern and that such liberty may not lightly be impaired. Steele v. Drummond, 275 U. S. 199, 205, 72 L. Ed. 238, 240, 48 Sup. Ct. Rep. 53. Generally speaking that right is protected by the due process clause of the 5th and 14th amendments. * * * It is also well established by the decisions of this Court that such liberty is not absolute or universal, and that Congress may regulate the making and performance of such contracts whenever reasonably necessary to effect any of the great purposes for which the national Government was created. * * *

"Under the Constitution, and subject to the safeguards there set for the protection of life, liberty and property, * * * the Congress and the President exert the war power of the nation, and they have wide discretion as to the means to be employed successfully

to carry on. (Miller v. Robertson, 266 U. S. 243, 248, 69 L. Ed. 265, 270, 45 Sup. Ct. Rep. 73; United States v. Chemical Foundation, 272 U. S. 1, 10, 71 L. Ed. 131, 140, 47 Sup. Ct. Rep. 1). The measures here challenged are supported by a strong presumption of validity, and they may not be set aside unless clearly shown to be arbitrary and repugnant to the constitution. Adkins v. Children's Hospital, supra, 544, (67 L. Ed. 790, 24 A. L. R. 1238, 43 Sup. Ct. Rep. 394). * * * The fixing of just prices was calculated to serve the convenience of producers and dealers as well as of consumers of coal needed to carry on the war. As it does not appear that plaintiff would have been entitled to more if his coal had been requisitioned, the act and orders will be deemed to have deprived him only of the right or opportunity by negotiation to obtain more than his coal was worth. Such an exaction would have increased the cost of the snowplows and other railroad equipment being manufactured by the defendant and therefore would have been directly opposed to the interest of the government. As applied to the coal in question, the statute and executive orders were not so clearly unreasonable and arbitrary as to require them to be held repugnant to the due process clause of the 5th Amendment."

These decisions and their reasoning, we submit, apply equally as well to the license rights under patents sought to be regulated by the Act of October 31, 1942 here under consideration and establish the dominance of the sovereign war powers over private contract rights of the citizens.

Similar dominance of sovereign powers of Government over private rights has been repeatedly recognized by this Court in *The Charles River Bridge* v. *The Warren Bridge et al*, 11 Peters 420; *Manigault* v. *Springs*, 199 U. S. 473; *The Union Bridge Co.* v. *United States*, 204 U. S. 364; *Louisville and N. R. Co.* v. *Mottley*, 219 U. S. 467; *Stephenson* v. *Binford*, 287 U. S. 251; *Home Building & Loan Assoc.* v. *Blaisdell et al*, 290 U. S. 398; *Wood* v. *Lovett*, 313 U. S. 362 and *Bowles* v. *Willingham*, 321 U. S. 503.

Since private rights of all kinds, including contract rights, are subject to the sovereign powers of the Govern-

ment, the right of exercise of the constitutional war powers in derogation of private patent rights we submit cannot now be seriously questioned. For Congress, under its war power, regulated patent rights in 1910 and 1918 as shown by the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68. If Congress can regulate the patent grant itself and other contract rights, we submit it has the power to regulate contracts based on patent rights in the manner provided by the Act of October 31, 1942 (66 Stat. 1013, 35 U. S. C. Supp. 3 Sections 89 to 96) where such contracts have the effect of impeding the war effort, for example by increasing costs, to the same extent as it has the power to regulate costs relating to other property *Block* v. *Hirsch*, 256 U. S. 135; *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253 and *Norman* v. *Baltimore & Ohio R. R. Co.*, 294 U. S. 240.

As Mr. Justice Holmes, after finding rent control proper under the war powers, aptly stated in *Block* v. *Hirsch*, 256 U. S. 135, 156,

> "The only matter that seems to us open to debate is whether the statute goes too far."

And the sole question suggested by this court for reargument is whether the Act of October 31, 1942 goes too far because of its retroactive features.

This Court held that an Act of Congress, otherwise proper, is not rendered unconstitutional or beyond the power of Congress merely because of its retroactive effect in *Billings* v. *United States*, 232 U. S. 261. In this case Mr. Chief Justice White in construing *Section 37 of the Tariff Act of August 5, 1909* which became effective on August 6, 1909 and provided an annual use tax on foreign built pleasure yachts operated by American owners or charterers upheld the act against the contention that the act was unconstitutional insofar as it required a tax to be paid on September 1, 1909 for the preceding year's use saying, page 282:

"* * * Again let it be conceded that the causing the tax for the annual period to become due in September, 1909, is to give it in some respects a retroactive effect, such concession does not cause the act to be beyond the power of Congress under the Constitution to adopt. Flint v. Stone Tracy Co., 220 U. S. 107, 55 L. Ed. 389, 31 Sup. Ct. Rep. 342, Ann. Cas. 1912 B, 1312, and authorities there cited. While the rule is that statutes should be so construed as to prevent them from operating retroactively, that principle is one of construction, and not of reconstruction, and therefore does not authorize a judicial reenactment by interpretation of a statute to save it from producing a retroactive effect."

A similar ruling as to retroactive effects of Congressional legislation under the sovereign powers was made in *Norman v. Baltimore & Ohio R. R. Co.*, 294 U. S. 240 wherein Mr. Chief Justice Hughes in upholding the constitutionality of the Joint Resolution of the Congress, of June 5, 1933 (48 Stat. at L. 112) with respect to the "gold clauses" of private contracts against the attack that it constituted an impairment of a contact, in particular the provisions for payment by reducing the value of the payments, said pages 304 and 305:

"Dealing with the specific question as to the effect of the legal tender acts upon contracts made before their passage, that is, those for the payment of money generally, the Court, in the legal tender cases, recognized the possible consequences of such enactments in frustrating the expected performance of contracts,—in rendering them 'fruitless or partially fruitless'. The Court pointed out" (305) "that the exercise of the powers of Congress may affect 'apparent obligations' of contracts in many ways. The Congress may pass bankruptcy acts. The Congress may declare war, or, even in peace, pass non-intercourse acts, or direct an embargo, which may operate seriously upon existing contracts. And the Court reasoned that if the legal tender acts 'were justly chargeable with impairing contract obligations, they would not, for that reason, be

forbidden unless a different rule is to be applied to them from that which has hitherto prevailed in the construction of other powers granted by the fundamental law.' The conclusion was that contracts must be understood as having been made in reference to the possible exercise of the rightful authority of the Government, and that no obligation of a contract 'can extend to the defeat' of that authority. Legal Tender Cases (Knox v. Lee) supra (12 Wall. pp. 549-551, 20 L. Ed. 311, 312).

* * *

(306) "The question of the validity of the Joint Resolution of June 5, 1933, must be determined in the light of these settled principles."

We submit the Act of October 31, 1942 at Sec. 7 shows a clear intent to have the Act apply to supplies, equipment or materials already delivered to the Government if the royalty has not been paid when it says:

"* * * This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided in section 1 hereof. * * * "

Applying the doctrine of construction rather than reconstruction announced in the Billings case quoted above or the reasoning of the Norman case, it is submitted that a holding of unconstitutionality of this Act would amount to the "judicial re-enactment" condemned by Mr. Chief Justice White. We submit such a holding is unnecessary here if Mr. Justice Holmes' reasoning in *Block* v. *Hirsch*, 256 U. S. 135, Mr. Justice Butler's reasoning in *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253 and Mr. Chief Justice Holmes' reasoning in *Norman* v. *Baltimore & Ohio R. R. Co.*, 294 U. S. 240 is applied in the light of this Court's decisions in *The Charles River Bridge* v. *The Warren Bridge et al.*, 11 Peters 420; *Home Building &*

Loan Assoc. v. *Blaisdell et al.*, 290 U. S. 398; and *Wood* v. *Lovett*, 313 U. S. 362 since the licensor's patent rights are and always have been subject to the exercise of the sovereign powers of the Government which cannot be defeated by the obligation of a private contract, *Norman* v. *Baltimore and Ohio R. R. Co.*, 294 U. S. 240; nor by a private estoppel, *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88. In *Norman* v. *Baltimore & Ohio* Mr. Chief Justice Holmes stated at page 305:

> "* * * The conclusion was that contracts must be understood as having been made in reference to possible exercise of the rightful authority of the Government, and that no obligation of a contract 'can extend to the defeat' of that authority. Legal Tender Cases (Knox v. Lee) supra (12 Wall. pp. 549-551, 20 L. Ed. 312)."

In *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88, involving patent rights Mr. Chief Justice Stone upheld a public interest unsupported by the sovereign power against the claim of the patent owner that his private right was such as to require a judgment for money in his favor saying:

> "If a manufacturer or user could restrict himself, by express contract, or by any action which would give rise to an 'estoppel,' from using the invention of an expired patent, he would deprive himself and the consuming public of the advantage to be derived from his free use of the disclosures. The public has invested in such free use by the grant of a monopoly to the patentee for a limited time. Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws. And for the same reason a stranger, such as respondent Marcalus, cannot, by securing and assigning a patent on the invention of the expired Inman patent, confer

.on petitioner any right to deprive the public of the benefits of the free use of the invention for which the public has paid by the grant of a limited monopoly."

Certainly if this public interest standing alone is sufficient to deny to a patent owner all compensation for his alleged invention or discovery, assertion of the public interest in prosecuting the war at reasonable cost through exercise of the powers of the Federal Government under a Congressional Act limiting a private right to recover monetary compensation under a patent license agreement to action against the Government is constitutional. And merely because Congress in its discretion intended the Act of October 31, 1942 to have a retroactive effect for the purpose of preventing unjust enrichment of private individuals due to preparation for, and the necessities of war, does not render the Act unconstitutional or beyond the power of Congress.

Point II. The Royalty Adjustment Act is Constitutional as applied to royalties due from Respondent The Timken-Detroit Axle Company to Petitioner for patented devices manufactured, sold and delivered to the Government before the promulgation of the Departmental Royalty Order.

Assuming arguendo that the Act of October 31, 1942 goes too far in attaching to unpaid royalties on patented devices manufactured, sold and delivered to the Government prior to the date of the Act, it is respectfully submitted that Petitioner, Alma Motor Company, had constructive notice of the Royalty Adjustment Act of October 31, 1942 (66 Stat. 1013, 35 U. S. C. Supp. 3, Sections 89-96) from its effective date, October 31, 1942, and of the possible application of this Act to any unpaid royalties accruing to it as a result of the manufacture, sale, and use of the patented devices subsequent to the date of the Act. The fact that the administrative notice of December 30, 1942 and administrative order W-3 of July 29, 1943 were issued to officially apply the Act to the specific matter here under consideration, and to determine the reduction to be provisionally

made in the royalties stipulated in the license is immaterial since the Act itself, not the notice or the order, effects the reaching back or retroactivity. It is respectfully submitted that if a Federal act imposing a tax on the use of a yacht and having an effective date of August 6, 1909 can constitutionally impose a use tax extending back to September 2, 1908 as approved in the case of *Billings* v. *United States*, 232 U. S. 261 quoted above, the retroactive aspects of this Act, brought into force by issuance of the notice of December 30, 1942, and the administrative Order W-3 do not render the Act unconstitutional insofar as it affects royalties accruing on patented devices manufactured, sold and delivered to the Government before the promulgation of the administrative notice and order, but after enactment of the Act.

Accordingly, it is respectfully submitted that a strict interpretation of the Act of October 31, 1942 and its application to royalties accruing on patented devices manufactured, sold and delivered to the Government before promulgation of the administrative royalty adjustment order does not constitute an unconstitutional exercise of the Government's war powers.

Point III. Section 2 of the Royalty Adjustment Act authorizing a suit to be brought in the Court of Claims or in a District Court saves to Petitioner a right to recover in such a suit a sum equal to the royalties stipulated to be paid under its contract with the Respondent The Timken-Detroit Axle Company.

(a) As hereinbefore pointed out, the cases of *Block* v. *Hirsch*, 256 U. S. 135; *Norman* v. *Baltimore & Ohio R. R. Co.*, 294 U. S. 240; and *Highland* v. *Russell Car and Snow Plow Co.*, 279 U. S. 253 hold that regulation to prevent unjust enrichment as a result of war conditions, and excessive costs of prosecuting the war, by reducing war profits or income from private property are constitutional without requiring payment of privately stipulated compensation to

the property owner. And section 2 of the Royalty Adjustment Act in providing that a dissatisfied or aggrieved licensor

> "* * * may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the *licensed invention** for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise."

goes as far as is required constitutionally.

In the use of the term "licensed invention" rather than "invention" Congress had in mind the *Act of June 25, 1910*, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Section 68 which provides for the use of any patented device by the Government and for the recovery of fair compensation for such use by action in the Court of Claims. Prompt and speedy fulfillment of the Government's needs for war preparation and prosecution made it necessary for the Government to call upon licensees who were in production on patented war equipment for quantities of licensed equipment vastly in excess of anything contemplated when their license agreements with their peacetime royalties were negotiated. Congress, recognizing these facts, and because time did not permit proceeding with unlicensed manufacturers under said 1910 Act as amended in 1918, passed the Royalty Adjustment Act to reduce the royalties accruing to the licensors under such conditions to fair and just sums, and to place at least the

* Emphasis ours.

licensed manufacturers on the same footing as if they were unlicensed and manufacturing for the Government under the Act of 1910 as amended in 1918 commencing from the time that royalties remained unpaid when the Royalty Adjustment Act was invoked.

To accomplish this end it provided a right of action in the Court of Claims or the District Courts to determine fair and just compensation for the manufacture, use, sale or other disposition of the *licensed inventions* purchased from licensees who were equipped to produce the patented inventions. Provision of this right of action in Section 2 of the Royalty Adjustment Act secured the licensor against unfair, unjust, and arbitrary destruction or modification of the stipulated royalty rate by administrative order and secures to the licensor a right of suit for the full stipulated royalty rates deemed fair and just and Congress intended the Courts in such actions to award up to the stipulated royalty rates under said Section 2.

We submit that the hearings on H. R. 7620 before the Committee on Patents of the House of Representatives clearly indicate that such was the intention of the proponents of the Royalty Adjustment Act and of the Congress.

The fact that full compensation may not be obtainable except by Court action subsequent to the exercise of the Government's sovereign rights is immaterial, since the provision for subsequent judicial review is all that the Constitution requires even where the necessity of compensation exists, *Crozier* v. *Krupp*, 224 U. S. 290. In this case, Mr. Chief Justice White held that the determination of reasonable compensation relating to a patent could be left for the future saying at page 306:

> "• • • Indisputably the duty to make compensation does not inflexibly, in the absence of constitutional provisions requiring it, exact, first, that compensation should be made previous to the taking—that is, that the amount should be ascertained and paid in advance of the appropriation—it being sufficient, having relation to the nature and character of the property taken, that

adequate means be provided for a reasonably just and prompt ascertainment and payment of the compensation; second, that, again always having reference to the nature and character of the property taken, its value and the surrounding circumstances, the duty to provide for payment of compensation may be adequately fulfilled by an assumption on the part of government of the duty to make prompt payment of the ascertained compensation—that is, by the pledge, either expressly or by necessary implication, of the public good faith to that end."

Further support for this proposition is found in the case of *Yakus* v. *United States,* 321 U. S. 414, in which Mr. Chief Justice Stone in upholding the Emergency Price Control Act of January 30, 1942, 56 Stat. 23, c. 26, 50 U. S. C. Appx. Supp. II §§ 901 et seq., 11 FCA Title 50, Appx. 25, §§ 1 et seq., as amended by the Inflation Control Act of October 2, 1942, 56 Stat. 765, c. 578, 50 USC. Appx. Supp. II, §§ 961 et seq., 11 FCA Title 50, Appx. 43, §§ 1 et seq., said page 442:

"Our decisions leave no doubt that when justified by compelling public interest the legislature may authorize summary action subject to later judicial review of its validity. It may insist on the immediate collection of taxes. Phillips v. Commissioner of Internal Revenue, 283 U. S. 589, 595-597, 75 L. Ed. 1289, 1296-1298, 51 S. Ct. 608, and cases cited. It may take possession of property presumptively abandoned by its owner, prior to determination of its actual abandonment, Anderson Nat. Bank v. Luckett No. 154, decided February 28, 1944 (321 U. S. 233, ante 692, 64 S. Ct. 599, 151 ALR. 824). For the protection of public health it may order the summary destruction of property without prior notice or hearing. North American Cold Storage Co. v. Chicago, 211 US 306, 53 L. Ed. 195, 29 S. Ct. 101, 15 Ann. Cas. 276; Adams v. Milwaukee, 228 U. S. 572, 584, 57 L. Ed. 971, 977, 33 S. Ct. 610. It may summarily requisition property immediately needed for the prosecution of the war. Compare United States v. Pfitsch, 256 US 547, 65 L ed 1084, 41 S Ct 569. As a measure of public protection the property of alien enemies may be seized, and property believed to be owned by ene-

mies taken without prior determination of its true ownership. Central Union Trust Co. v. Garvan, 254 US 554, 556, 65 L. Ed. 403, 41 S. Ct. 214; Stoehr v. Wallace, 255 S. Ct. 239, 245, 6 L. Ed. 604, 612, 41 S. Ct. 293. Similarly public necessity in time of war may justify allowing tenants to remain in possession against the will of the landlord, Block v. Hirsch, 256 US 135, 65 L. Ed. 865, 41 S. Ct. 458, 16 ALR 165; Marcus Brown Holding Co. v. Feldman, 256 US 170, 65 L. Ed. 877, 41 S. Ct. 465. Even the personal liberty of the citizen may be temporarily restrained as a measure of public safety. Hirabayashi v. United States, 320 US 81, 87 L. Ed. 1774, 63 S. Ct. 1375, supra; cf. Jacobson v. Massachusetts, 197 US 11, 49 L. Ed. 643, 25 S. Ct. 358, 3 Ann. Cas. 765. Measured by these standards we find no denial of due process under the circumstances in which this Act was adopted and must be applied, in its denial of any judicial stay pending determination of a regulation's validity."

We, therefore, submit that it is immaterial whether the Act of October 31, 1942 be deemed an exercise of the reserved Constitutional powers of the Federal Government, a taking of a contract under eminent domain in the exercise of the war powers, or the taking or appropriation of a patented invention under eminent domain in the exercise of the war powers, for full and complete compensation is provided by the act.

Furthermore the fact that the Act gives the Government the right to attack validity does not affect the constitutionality of the Act since the right to attack validity was in fact available to respondent as decided by this Court in the case of *Scott Paper Co.* v. *Marcalus Mfg. Co., et al,* Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88, as particularly set forth in the hereinbefore quoted section of this case. This Court's decision in *Sinclair & Carroll Company, Inc.* v. *Interchemical Corporation,* 325 U. S. 327 sets forth the public policy considerations which are involved in questions of validity of patents and which are the basis of the decision in the Scott Paper Company case.

(b) Even assuming that the Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96) when invoked to set a zero royalty as was done here effects a taking of the contract or a taking of an invention under the sovereign power of the Federal Government, the Act is constitutional since it provides for fair and just compensation for the manufacture, use, sale, or other disposition of the licensed invention. That Congress intended the relief provisions of this Act to give a licensor the exact equivalent of the right of suit against the licensee seems clear from the language itself, since there is no estoppel against the licensee attacking validity, *Scott Paper Co.* v. *Marcalus Mfg. Co., et al*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88. The courts, it is submitted, must presume this to be the case *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331 in which Mr. Chief Justice Taft said, page 331:

> "• • • The intention and purpose of Congress in the Act of 1918 was to stimulate contractors to furnish what was needed for the War, without fear of becoming liable themselves for infringements to inventors or the owners or assignees of patents. The letter of the Assistant Secretary of the Navy, upon which the Act of 1918 was passed, leaves no doubt that this was the occasion for it. To accomplish this governmental purpose, Congress exercised the power to take away the right of the owner of the patent to recover from the contractor for infringements. This is not a case of a mere declared immunity of the Government from liability for its own torts. It is an attempt to take away from a private citizen his lawful claim for damage to his property by another private person which but for this Act he would have against the private wrongdoer. This result, if 3477 Rev. Stats. applies and avoids the assignment, would seem to raise a serious question as to the constitutionality of the Act of 1918 under the Fifth Amendment to the Federal Constitution. We must presume that Congress in the passage of the Act of 1918 intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. • • •"

CONCLUSION.

We submit, therefore, that the Act of October 31, 1942 is not unconstitutional because of its retroactive application to any royalties that might have been due petitioner prior to the passage of the Act, provides full and complete redress for the Government's use of the licensed invention irrespective of the theory upon which the Act is based, is a constitutional and proper exercise of the sovereign war powers under the Federal Constitution, and should be upheld.

Respectfully submitted,

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APPENDIX A.

The Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C., Supp. III, §§ 89-96) reads as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however,* That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The

licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid

such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials al-

ready delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (*l*) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstances shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

APPENDIX B.

The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. § 68) reads as follows:

> Whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however,* That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further,* That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise.

APPENDIX C.

§ 36. Same; examination of invention, and issuing of patent

On the filing of any such application and the payment of the fees required by law, the Commissioner of Patents shall cause an examination to be made of the alleged new invention or discovery; and, if on such examination it shall appear that the claimant is justly entitled to a patent under the law, and that the same is sufficiently useful and important, the commissioner shall issue a patent therefor. R. S. § 4893.

§ 40. Same; contents and duration

Every patent shall contain a short title or description of the invention or discovery, correctly indicating its nature and design, and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the invention or discovery (including in the case of a plant patent the exclusive right to asexually reproduce the plant) throughout the United States and the Territories thereof, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. R. S. § 4884; May 23, 1930, c. 312, § 1, 46 Stat. 376.

§ 68. Suit for unlicensed use of invention by the United States; compensation for; Government employees

Whenever an invention described in and covered by a patent of the United States shall be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture. The Court of Claims shall not entertain a suit or award compensation under the provisions of this section where the

claim for compensation is based on the use or manufacture by or for the United States of any article owned, leased, used by, or in the possession of the United States prior to June 25, 1910. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in this chapter, or otherwise. The benefits of the provisions of this section shall not inure to any patentee who, when he makes such claim, is in the employment or service of the Government of the United States, or the assignee of any such patentee. This section shall not apply to any device discovered or invented by such employee during the time of his employment or service. June 25, 1910, c. 423, 36 Stat. 851; July 1, 1918, c. 114, 40 Stat. 705.